

UIL  
501.07-05

Internal Revenue Service  
District Director

Department of the Treasury

Date: JUL 14 1998

Form Number:  
990 & 990-T  
Period Ended:

Person to Contact:

Contact Telephone Number:

Dear Sirs:

This letter is in reference to our examination of your Form 990 and 990-T for the year ending \_\_\_\_\_ and the resulting conclusions about your exempt status under 501(c)(7) of the Internal Revenue Code.

As a result of our examination, it was determined that a substantial part of your financial support was derived from nonmember participation in your club operations. Your filed 990-T returns showed as a percentage of receipts from nonmembers the following for the years involved:  
27.09% for \_\_\_\_\_ 37% for \_\_\_\_\_ 30.77% for \_\_\_\_\_, and  
30.65% for \_\_\_\_\_ when nonmember income is combined with investment income the following percentages were derived:  
45.53% for \_\_\_\_\_ 37.61% for \_\_\_\_\_ 43.69% for \_\_\_\_\_ and  
40.10% for \_\_\_\_\_

The above comparisons reflect a substantial percentage of your income being derived yearly from the "public" as defined in Revenue Procedure 71-17 and cited below.

Section 501(c)(7) of the Code provides for exemption from Federal income tax for clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private individual.

Treasury Regulations 1.501(c)(7)-1(b) provides, in part, that a club which engages in business, such as making its social and recreational facilities available to the general public ....is not organized and operated for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes.

The Committee Reports for Public Law 94-568 (Senate Report No. 94-1318 2d Session, 1976-2 C. B. 597) state it is intended that social clubs should be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their memberships without losing their exempt status. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of a social club's facilities or services by the general public. This means that an exempt social club may receive up to 35 percent of its gross receipts from a combination of investment income and receipts from nonmembers, so long as the latter do not represent more than 15 percent of total receipts.

Revenue Procedure 71-17, 1971-1 C.B. 683, describes circumstances under which nonmembers who use a club's facilities will be assumed to be guests of members. The procedure assumes for audit purposes that, where a group of eight or fewer persons, at least one of whom is a member, uses the club facilities, the nonmembers are guests of the member, provided payment for such use is received directly from the member or member's employer. Likewise, where 75 percent or more of a group using club facilities are members, it will be assumed that the nonmembers in the group are guests of members, provided payment for such use is received by the club directly from members or their employers..

Because you have exceeded the guidelines for nonmember receipts as set forth in Public Law 94-568, and since the trend for nonmember receipts has been maintained at an excessive rate and amount over a number of years, it is concluded that you are operated for the general public, rather than for your membership and their guests. Accordingly, your exempt status is revoked, effective

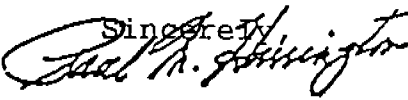
The organization agreed to this action through the execution of Form 6018 by its president on

As a result you will be required to file Federal income tax returns on Forms 1120 for the tax years ended \_\_\_\_\_ and all subsequent years. Forms 1120 for the years ended \_\_\_\_\_ and \_\_\_\_\_ must be filed with this office within 30 days or the date of this letter unless a request for an extension of time is granted. Forms 1120 for subsequent years must be filed with the appropriate Service Center.

Send Forms 1120 for the years ended \_\_\_\_\_ and \_\_\_\_\_ to the following address:

Internal Revenue Service  
1 \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

This is a final adverse determination of your exempt status under section 501(c)(7) of the Internal Revenue Code.

Sincerely,  


Paul M. Harrington  
District Director